

Message Text

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PAGE 01 STATE 207344
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INFORM CONSULS

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SUBJECT: WORLD FOOD SECURITY AND SET-ASIDE PLANS

1. THERE FOLLOWS UNDERSECRETARY OF AGRICULTURE WHITE'S
STATEMENT OF AUGUST 29 ANNOUNCING THE NEW ACREAGE SET-
ASIDE POLICY FOR WHEAT AND DOMESTIC RESERVE LEVELS FOR ALL
GRAINS. COMMENTS WILL BE TRANSMITTED SEPTTEL.

BEGIN QUOTE: ACTING SECRETARY OF AGRICULTURE JOHN WHITE
ANNOUNCED TODAY THE FOLLOWING DECISIONS:

1) A COMPREHENSIVE PLAN TO PLACE 30 TO 35 MILLION
METRIC TONS OF FOOD AND FEED GRAINS IN RESERVE PRIOR
TO THE BEGINNING OF THE 1978/79 MARKETING YEARS,
INCLUDING A PROPOSAL TO CREATE A SPECIAL INTERNATIONAL
EMERGENCY FOOD RESERVE OF UP TO 6 MILLION TONS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 207344

2) THE ADMINISTRATION'S INTENTION TO IMPLEMENT A
20 PERCENT SET-ASIDE ON 1978-CROP WHEAT.

3) AN IMMEDIATE INCREASE IN THE LOAN RATES FOR 1977-
CROP FEED GRAINS.

STRATEGIC GRAIN RESERVES

STRATEGIC GRAIN RESERVES WILL BE ACQUIRED IN THREE
SEPARATE ACTIONS:

FIRST, THE ADMINISTRATION WILL SEEK CONGRESSIONAL APPROVAL
TO CREATE A SPECIAL INTERNATIONAL EMERGENCY FOOD RESERVE
OF UP TO 6 MILLION TONS. THIS RESERVE COULD ONLY BE
RELEASED FOR NONCOMMERCIAL FOOD AID FOR WORLD NUTRITION
ASSISTANCE AND TO MEET UNITED STATES' OBLIGATIONS UNDER
A PROPOSED INTERNATIONAL RESERVES AGREEMENT.

SECOND, THE FARMER-OWNED WHEAT AND RICE RESERVE PROGRAM
ANNOUNCED BY THE SECRETARY IN APRIL WILL BE EXPANDED TO
INCLUDE FEED GRAINS. A FEED GRAIN RESERVE OF 17 TO 19
MILLION METRIC TONS IS PLANNED. THE MINIMUM RELEASE PRICE
FOR FEED GRAINS IS EXPECTED TO BE EQUAL TO 125 PERCENT OF
THE LOAN (2.50 DOLLARS FOR CORN); THE LOANS ARE EXPECTED
TO BE CALLED WHEN THE PRICE REACHES 140 PERCENT OF THE
LOAN (2.80 DOLLARS FOR CORN).

UNDER THE FOOD GRAIN (WHEAT AND RICE) RESERVE PROGRAM
ANNOUNCED IN APRIL, AT LEAST 300 MILLION BUSHELS OF WHEAT
(8.16 MILLION TONS) AND 13.2 MILLION HUNDRED-WEIGHT OF
RICE (600,000 TONS) WILL BE HELD OFF THE MARKET UNTIL THE
PRICE EXCEEDS 140 PERCENT OF LOAN LEVELS, AND LOANS CAN BE
CALLED WHEN PRICES EXCEED 175 PERCENT OF LOAN LEVELS.
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 207344

THIRD, SOME 1975-CROP RICE AND 1976-CROP WHEAT HAS OR WILL
BE TURNED OVER TO THE GOVERNMENT WHEN CCC PRICE SUPPORT
LOANS MATURE IN COMING MONTHS. THIS GRAIN WILL ALSO BECOME
PART OF THE OVERALL GRAIN RESERVE.

THE ESTABLISHMENT OF THESE RESERVES AT THIS TIME WITH
PROVISIONS FOR THEIR ORDERLY MANAGEMENT ARE INTENDED TO
MEET SEVERAL OBJECTIVES.

-- THEY WILL SERVE AS A HEDGE AGAINST THE INFLATIONARY
EFFECTS OF A POOR CROP IN THE FUTURE. THOUGH WORLD
GRAIN STOCKS HAVE RISEN DRAMATICALLY THIS PAST YEAR,
TO THE POINT THAT MARKET PRICES ARE SEVERELY DEPRESS-
ED, THIS SITUATION COULD CHANGE ABRUPTLY. IF WE ARE
TO REBUILD OUR STOCKS IN A WAY THAT WILL HELP US
AVOID A REPEAT OF THE SEVERE SHORTAGES AND EXTREME
PRICE VOLATILITY OF 1973-75, THIS IS THE TIME TO DO
IT ... WHEN IT CAN BE DONE AT LEAST COST TO THE TAX-
PAYER AND MOST BENEFIT TO THE FARMER.

-- THE FORMATION OF THESE STRATEGIC RESERVES AND THE

PROPOSED CREATION OF AN INTERNATIONAL EMERGENCY FOOD RESERVE DEMONSTRATES AND UNDERSCORES THE PRESIDENT'S COMMITMENT TO THE FIGHT AGAINST WORLD HUNGER. IT IS ALSO CONSISTENT WITH THE U.S. ANNOUNCED POSITION AT THE WORLD FOOD COUNCIL MINISTERIAL IN MANILA THIS PAST SUMMER AND WITH OUR POSITION IN THE NEGOTIATIONS FOR AN INTERNATIONAL GRAINS AGREEMENT, SOON TO BEGIN AT THE INTERNATIONAL WHEAT COUNCIL IN LONDON.

-- OUT DOMESTIC GRAIN SUPPLIES ARE NOW MORE THAN SUFFICIENT TO ENABLE US TO ACQUIRE ENOUGH RESERVES TO ENSURE OUR FOOD AID COMMITMENTS TO LESS DEVELOPED COUNTRIES.
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 207344

SET-ASIDE

EVEN THOUGH CONGRESSIONAL ACTION ON THE FOOD AND AGRICULTURE ACT OF 1977 IS NOT COMPLETE, I AM ANNOUNCING OUR INTENTIONS FOR A 20 PERCENT SET-ASIDE ON 1978-CROP WHEAT AT THIS TIME SINCE FARMERS ARE NOW BEGINNING TO PLANT THE 1978 WINTER WHEAT CROP. WHILE THE PROGRAM IS VOLUNTARY, FARMER COMPLIANCE WITH THE SET-ASIDE IS A CONDITION OF ELIGIBILITY FOR LOANS, PURCHASES, AND PAYMENTS IN ANY USDA COMMODITY PROGRAM. ALSO, DESIGNATED SET-ASIDE ACREAGE MUST BE PUT INTO A SOIL CONSERVING USE.

WE ARE NOT ANNOUNCING A 1978-CROP FEED GRAIN SET-ASIDE TODAY; THE FINAL DECISION WILL BE MADE AFTER WE KNOW MORE ABOUT 1977 PRODUCTION AND CONSUMPTION PROSPECTS. HOWEVER, THE CURRENT FEED GRAINS PRODUCTION ESTIMATE INDICATES THAT A 10 PERCENT SET-ASIDE MAY BE NEEDED JUST TO KEEP OUR STOCKS FROM CLIMBING TO EXCESSIVE LEVELS.

SINCE 1975, THE WORLD'S TOTAL GRAIN STOCKS HAVE INCREASED FROM 126 TO 183 MILLION METRIC TONS. NEARLY 60 PERCENT OF THE INCREASE THE PAST TWO YEARS HAS OCCURRED IN THE UNITED STATES WHERE STOCKS ROSE FROM 27 TO 61 MILLION METRIC TONS. TWO YEARS AGO WORLD WHEAT STOCKS WERE 62.5 MILLION TONS AND THE U.S. HELD ONLY 19 PERCENT OF THEM. TODAY, WORLD STOCKS TOTAL 100 MILLION METRIC TONS AND THE UNITED STATES HOLDS 30 PERCENT. IN THE CASE OF FEED GRAINS, WORLD STOCKS TOTALED 51 MILLION METRIC TONS LAST YEAR; THE UNITED STATES HELD APPROXIMATELY 34 PERCENT. THIS YEAR WORLD STOCKS TOTAL NEARLY 69 MILLION TONS OF WHICH THE U.S. HOLDS 44 PERCENT.

UNCLASSIFIED

UNCLASSIFIED

PAGE 05 STATE 207344

CURRENT ESTIMATES PLACE TOTAL WORLD STOCKS AT 200 MILLION TONS AND U.S. STOCKS AT NEARLY 80 MILLION TONS BY THE BEGINNING OF THE 1978/79 SEASON. AT THIS LEVEL, THE U.S. WOULD HOLD NEARLY 35 PERCENT OF THE WORLD'S STOCKS OF WHEAT AND APPROXIMATELY HALF OF THE WORLD'S FOOD GRAIN STOCKS.

STOCKS OF THIS MAGNITUDE ARE QUITE ADEQUATE TO MEET OUR DOMESTIC AND EXPORT REQUIREMENTS. FURTHERMORE, THE ESTABLISHMENT OF STRATEGIC RESERVES INSURES THE UNITED STATES COMMITMENT TO WORLD FOOD SECURITY.

OUR ANALYSIS INDICATES THAT EVEN AFTER WE ACQUIRE SUFFICIENT RESERVE STOCKS, WORLD PRODUCTION IN 1978/79 UNDER THE "MOST LIKELY" WEATHER CONDITIONS WILL AGAIN BE IN EXCESS OF MARKET REQUIREMENTS, CAUSING STOCKS TO RISE EVEN FURTHER.

IF THIS DOES OCCUR, TWO RESULTS ARE LIKELY. FIRST, THERE WOULD BE REDUCED INCENTIVE FOR OTHER NATIONS TO PARTICIPATE IN AN INTERNATIONAL GRAIN RESERVE SYSTEM. THOUGH THE UNITED STATES IS WILLING TO HOLD ITS "FAIR SHARE" OF WORLD STOCKS, WE EXPECT OTHER NATIONS TO DO LIKEWISE. SECOND, WE ARE CONCERNED THAT WITH EXCESSIVE STOCKS AND LOW GRAIN PRICES THERE WOULD BE REDUCED INCENTIVE FOR THE DEVELOPING COUNTRIES TO INCREASE THEIR OWN FOOD PRODUCTION. OVER THE LONG-TERM THIS COULD HAVE DISASTEROUS CONSEQUENCES. IN OUR CONVERSATIONS WITH WORLD LEADERS AND WORLD FOOD EXPERTS, THERE IS ONE ISSUE ON WHICH ALL AGREE: THE DEVELOPING COUNTRIES OF THE WORLD MUST INCREASE THEIR FOOD PRODUCTION SIGNIFICANTLY IN FUTURE YEARS TO MEET THE DEMANDS OF GROWING POPULATIONS. THUS, IN AN EFFORT TO KEEP U.S. AND WORLD GRAIN STOCKS IN REASONABLE BALANCE WITH CONSUMPTION, WE ARE IMPLEMENTING A MODEST SET-ASIDE PROGRAM FOR 1978-CROP WHEAT.

SINCE A DECISION TO HAVE A SET-ASIDE IS AN ANNUAL DETERMINATION, A SET-ASIDE PROGRAM FOR 1978 CROPS SHOULD NOT BE INTERPRETED TO IMPLY THAT THERE WILL BE SET-ASIDE PROGRAMS FOR SUBSEQUENT CROPS. THIS IS A DECISION MADE FOR THIS YEAR ALONE BASED ON THE CURRENT SITUATION.

UNCLASSIFIED

PAGE 06 STATE 207344

MINATION, A SET-ASIDE PROGRAM FOR 1978 CROPS SHOULD NOT BE INTERPRETED TO IMPLY THAT THERE WILL BE SET-ASIDE PROGRAMS FOR SUBSEQUENT CROPS. THIS IS A DECISION MADE FOR THIS YEAR ALONE BASED ON THE CURRENT SITUATION.

LOAN RATES

GIVEN THE SEVERE COST-PRICE SQUEEZE THAT IS NOW ADVERSELY AFFECTING MANY FARMERS, LOAN RATES FOR 1977-CROP FEED GRAINS ARE BEING RAISED IMMEDIATELY. THE CORN LOAN RATE IS BEING INCREASED FROM 1.75 DOLLARS TO 2.00 DOLLARS PER BUSHEL WITH OTHER FEED GRAINS SET IN THE PROPER RELATION-

SHIP TO CORN. THIS CHANGE, WHICH IS BEING DONE UNDER EXISTING AUTHORITY, IS CONSISTENT WITH RECENT CONGRESSIONAL ACTIONS AND WILL RETURN THE LOAN RATE FOR FEED GRAINS TO ITS APPROPRIATE RELATIONSHIP TO THE LOAN RATE FOR WHEAT.

THE 1977 WHEAT LOAN LEVEL OF 2.25 DOLLARS WILL REMAIN UNCHANGED. WE WOULD ANTICIPATE NO CHANGE FOR 1978 IN THE LOAN LEVELS ANNOUNCED TODAY, THOUGH THEY ARE SUBJECT TO CHANGE. HOLDING LOAN RATES AT THESE LEVELS WILL ALLOW MARKET FORCES TO OPERATE MORE FREELY AND HELP MAINTAIN U.S. COMPETIVENESS IN THE WORLD MARKETS. END QUOTE. CHRISTOPHER

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